

Message Text

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ACTION EB-08

INFO OCT-01 AF-10 ARA-10 EUR-12 ISO-00 AGR-01 STR-07
COME-00 TRSE-00 CIAE-00 INR-10 NSAE-00 SS-15 /074 W
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P 162102Z AUG 78
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC PRIORITY 8675
INFO AMEMBASSY ABIDJAN
AMEMBASSY BOGOTA
AMEMBASSY LONDON PRIORITY
AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

C O N F I D E N T I A L SECTION 1 OF 2 BRASILIA 6461

DEPT FOR EB ICD TRP; ALSO PASS AGRICULTURE

EO 11652 GDS
TAGS ETRD BR
SUBJECT: BRAZILIAN VIEWS ON INTERNATIONAL COFFEE AGREEMENT

REF A. BRASILIA 6427 B. RIO 3642

1. SUMMARY. DURING A DISCUSSION WITH ECONOMIC OFFICERS AUG. 15, JORIO DAUSTER (BASIC PRODUCTS OFFICE OF THE FOREIGN MINISTRY) REVIEWED BRAZILIAN IDEAS ON SEPTEMBER MEETINGS OF THE INTERNATIONAL COFFEE ORGANIZATION (ICO). ALTHOUGH HE ADMITTED THAT A MAJOR FROST IN BRAZIL COULD SIGNIFICANTLY CHANGE THE COFFEE SITUATION, AT THE PRESENT TIME DAUSTER WOULD LIKE TO CONTINUE TO EXCHANGE IDEAS ON BRINGING THE ICA INTO OPERATION AT THE BEGINNING OF THE NEW COFFEE YEAR. DISCUSSION CENTERED ON METHOD TO BRING AGREEMENT INTO OPERATION, PRICE RANGE AND SELECTIVITY,

QUOTAS, AND US IMPLEMENTING LEGISLATION. END SUMMARY

2. ECONOMIC OFFICERS VISITED JORIO DAUSTER THE MORNING OF AUGUST
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15 WHEN FIRST PRESS REPORTS OF A FROST IN PARANA HAD PLACED CONDITIONS ON THE WORLD COFFEE MARKET IN DOUBT. DAUSTER OPENED THE CONVERSATION BY STATING THAT IT IS TOO EARLY TO MAKE ANY JUDGMENTS ON FUTURE COFFEE SITUATION (SEE REFS) AND IMPLICATIONS FOR THE ICA, HOWEVER, HE SEES TWO POSSIBLE SCENARIOS. IF BRAZIL'S CROP SUFFERS SIGNIFICANT DAMAGE, QUOTA MECHANISMS OF THE ICA WILL HAVE TO REMAIN SUSPENDED, AND AT MOST, THE COMING MEETING OF THE COFFEE COUNCIL

WILL CONCENTRATE ON REVISION OF THE PRICE TRIGGERS OF THE 1975 AGREEMENT TO "MORE REALISTIC LEVELS". DAUSTER POINTED OUT THAT THE TRIGGER PRICES WERE PUT INTO THE AGREEMENT ONLY AS GENERAL INDICATORS OF MARKET CONDITIONS, NOT AS FINAL PRICE RANGES, AND THAT THEY SHOULD BE REVISED IN LIGHT OF CURRENT MARKET CONDITIONS. IF THE FROST THREAT PASSES WITHOUT SERIOUS CONSEQUENCES AND THE MARKET RESUMES ITS DOWNWARD TREND, BRAZIL AND OTHER PRODUCERS ARE ANXIOUS TO PUT THE AGREEMENT INTO OPERATION. BRAZIL FAVORS THE DIRECT IMPOSITION OF A PRICE RANGE AND QUOTAS BY COUNCIL DECISION BECAUSE, IN HIS VIEW, REVISION OF THE BASIC PRICE TRIGGER WOULD RAISE THE QUESTIONS OF INDEXATION AND THE DECLINE IN PURCHASING POWER OF THE DOLLAR WHICH COULD PRESENT POLITICAL COMPLICATIONS FOR CONSUMING MEMBERS. DAUSTER REALIZES THAT US IMPLEMENTING LEGISLATION WILL NOT BE IN PLACE THIS YEAR AND STATED THAT PRODUCERS IN GENERAL TAKE THE DELAY IN US IMPLEMENTING LEGISLATION AS A SIGN OF A LACK OF US INTEREST IN THE AGREEMENT. HE QUICKLY ADDED THAT BRAZIL IS "REASSURED" BY THE US OFFER TO DO WHAT IS POSSIBLE TO COOPERATE WITH THE AGREEMENT IF QUOTAS ENTER INTO EFFECT BEFORE LEGISLATION IS SECURED. IN HIS OPINION, THE LACK OF US AUTHORITY TO STRICTLY CONTROL COFFEE IMPORTS IS NOT ESSENTIAL TO THE OPERATION OF THE QUOTA SYSTEM IF LEGISLATION IS PROMPTLY OBTAINED IN THE BEGINNING OF 1979.

3. ON THE PRICE RANGE, DAUSTER STATED THAT NEITHER PRODUCERS NOR CONSUMERS ARE READY TO DISCUSS PRECISE

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LEVELS; HOWEVER, BRAZIL FEELS IT IS IMPORTANT THAT ANY PRICE RANGE BE COMPATIBLE WITH BRAZIL'S DOMESTIC GUARANTEE PRICE (THE PRICE

AT WHICH THE IBC WILL BUY COFFEE) OF CR\$2500 PER BAG (\$1.04 PER POUND). WITH FREIGHT, DAUSTER CALCULATED THIS WOULD IMPLY PROTECTION OF A PRICE BETWEEN \$1.20 TO \$1.30 PER POUND. HE EMPHASIZED THAT GIVEN THE CURRENT DOMESTIC POLITICAL SITUATION (I.E., ELECTIONS, THE POLITICAL OPENING AND DISCONTENT AMONG FARMERS IN THE SOUTH DUE TO PERCEIVED NEGLECT BY THE GOVERNMENT OF PROBLEMS CAUSED BY THE DROUGHT AND INEPT COFFEE POLICY) IT WOULD BE VERY DIFFICULT FOR THE IBC TO LOWER THE GUARANTEE PRICE. CURRENTLY, BRAZIL IS THINKING OF A BROAD PRICE BAND LEAVING WIDE LEEWAY FOR MARKET FLUCTUATIONS, SO THAT "IT WILL NOT BE NECESSARY TO TAKE ACTION EVERYTIME THE MARKET PRICE CHANGES BY A FEW CENTS". DAUSTER ALSO MENTIONED THAT, AT PRESENT, IT IS NOT NECESSARY TO COMPLICATE THE AGREEMENT WITH VARIOUS PRICE RANGES FOR DIFFERENT TYPES OF COFFEE (SELECTIVITY). IN HIS OPINION, IN THE LONG RUN PRICE DIFFERENTIALS BETWEEN VARIOUS TYPES OF COFFEES TEND TO DISAPPEAR BECAUSE THE INCREASING USE OF BLENDS AND SOLUBLE COFFEE MAKES QUALITY DIFFERENCES IN THE FINAL PRODUCT INDISTINGUISHABLE AND THE QUALITY OF AFRICAN ROBUSTA COFFEE HAS IMPROVED MARKEDLY.

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4. IN THE EVENT THAT QUOTAS ARE INTRODUCED IN SEPTEMBER, DAUSTER FEELS THAT DESPITE COLOMBIAN INTEREST IN CHANGING THE BASIS ON WHICH QUOTAS WOULD BE ESTABLISHED THE PRESENT VARIABLE QUOTA SYSTEM SHOULD BE PRESERVED. HE ACKNOWLEDGED THAT UNDER THE PRESENT SYSTEM BRAZIL WOULD NOT HAVE SUFFICIENT COFFEE NEXT YEAR TO FULFILL ITS QUOTA. AS A SOLUTION HE SUGGESTED THAT IF THE OVERALL QUOTA ESTABLISHED WERE TO BE REALISTIC BRAZIL WOULD DECLARE A SHORTFALL IN ADVANCE ALLOWING PART OF THE BRAZILIAN QUOTA TO BE REDISTRIBUTED AMONG OTHER PRODUCERS.

5. TO END THE CONVERSATION DAUSTER PROMISED TO DELIVER HIS IDEAS ON THE PRICE RANGE TO THE EMBASSY THE WEEK OF AUGUST 21. HE SUGGESTED THAT ANY REACTION TO THESE IDEAS BY THE DEPARTMENT MIGHT ALSO BE GIVEN TO COSTA FRANCO FILHO, THE NEW DCM OF THE BRAZILIAN EMBASSY IN WASHINGTON, TO ALLOW HIM TO BECOME ACQUAINTED WITH DEPARTMENT OFFICIALS WORKING ON COFFEE MATTERS.
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